

Statement

NOTES FOR AN ADDRESS BY

GEORGE N. ADDY

DIRECTOR OF INVESTIGATION AND RESEARCH

BUREAU OF COMPETITION POLICY

INDUSTRY CANADA

TO THE

XXXVITH WORLD CONGRESS OF THE AIPPI

MONTREAL, QUEBEC, JUNE 29, 1995

COMPETITION POLICY AND INTELLECTUAL

PROPERTY RIGHTS: COMPLEMENTARY FRAMEWORK

POLICIES FOR A DYNAMIC MARKET ECONOMY




Check Against Delivery



Government
of Canada

Gouvernement
du Canada

Canada



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

<https://archive.org/details/31761116384769>

I. Introduction

Good morning. For those of you who are in the process of learning about the Canadian legal and policy environment, let me first very briefly explain who I am. The Director of Investigation and Research is an independent law enforcement official responsible for the administration and enforcement of the *Competition Act*.¹ Adopted in 1986, the *Act* incorporates both criminal and non-criminal provisions dealing with practices such as conspiracies in restraint of trade, mergers, abuse of a dominant position and misleading advertising.

With regard to civil matters, the Director makes applications to the Competition Tribunal for remedial orders designed to maintain competition and deal with anticompetitive practices. Evidence of criminal matters is referred to the Attorney General of Canada for consideration of prosecution before the courts. The legislation also authorizes the Director to intervene in proceedings of federal and provincial regulatory bodies that have implications for competition.

II. Intellectual Property Rights, Competition Policy and the Emerging Global Economy

Intellectual property rights ("IPRs"), including patents, trademarks, copyrights, registered industrial designs and integrated circuit topographies, are a key factor in fostering innovation and growth in today's economy. Such rights provide vital incentives for research and development leading to new products and production processes. By promoting innovation, intellectual property rights also serve to strengthen competition in particular markets for goods and services. In this regard, the nature and extent of innovation in a market is specifically referred to in the *Act* as a factor to be considered in assessing the competitive impact of mergers.²

1. Important procedural safeguards applicable to the exercise of the Director's powers are discussed in George N. Addy, *Private Rights and the Public Interest Under Canada's Competition Act* (Remarks to a Seminar on Antitrust in a Global Economy, Fordham Corporate Law Institute, October 21-22, 1993).

2. See the *Act*, section 93(g).

The interface between competition policy and intellectual property rights is currently receiving increasing attention from antitrust authorities and policy makers. In fact, IPRs have figured importantly in several recent competition law cases in Canada and the U.S.³ This increased interest by antitrust authorities stems from three developments. The first is the growing importance of knowledge-based industries and the role of technology as an input to the production process. Secondly, as geographic distance has become less significant and the notion of "distinct national markets" less reflective of commercial realities, there is a growing focus on intellectual property rights as a factor that can facilitate market control.

Thirdly, technological change has eroded the rationale for direct regulation in the telecommunications, electricity generation and other traditionally regulated industries -- i.e., the view that such industries constitute natural monopolies. As a result, such industries are increasingly being exposed to the forces of competition. These developments have prompted growing interest in the content and application of marketplace policies such as competition policy and intellectual property rights that provide the operative framework for commercial enterprise and development in many industries.

From a static or short run perspective, there is a certain tension between the goals of competition policy and IPRs. Indeed, while IPRs provide a limited form of "statutory monopoly," the role of competition law is to provide remedies to deal with licensing and other practices that unreasonably limit competition, to the

3. In the U.S., intellectual property rights figured in the 1994 consent decrees entered in the *Pilkington* and *Wave Soldering* matters. See *United States v. Pilkington plc and Pilkington Holdings Inc.* (CCH 1994-2 Trade Cases ¶ 70,842) and *United States v. Cookson Group plc et al.* (CCH 1994-1 Trade Cases ¶70,666). In Canada, intellectual property rights were a key consideration in the *NutraSweet* matter, discussed *infra*.

detriment of users.⁴ This is important particularly in circumstances where IPRs confer significant market power on their owners.⁵

In the majority of cases, however, IP rights do not provide significant market power, at least to a degree that is of concern to antitrust officials. Rather, the product space covered by a particular IP right is usually smaller than a "relevant market" in an antitrust sense.⁶ More fundamentally, in the long run, intellectual property rights generally strengthen competition in the economy, by providing incentives for the development and production of new products and production processes. Thus, the long run goals of competition policy and IPRs are mutually reinforcing.

In general, Canada's competition legislation provides a flexible, market-oriented framework for dealing with business arrangements and practices relating to intellectual property rights. The *Act* provides remedies to deal with a wide range of anticompetitive practices that may occur in the context of licensing and other arrangements. At the same time, the relevant statutory provisions incorporate appropriate filters that focus the provisions on situations involving significant market power, and facilitate consideration of potential efficiency justifications for particular practices.

The competition policy framework for the exercise of intellectual property rights in Canada compares well with the rules applicable in other advanced industrial economies. In the U.S., the antitrust framework for intellectual property

-
4. Two broad categories of anticompetitive conduct involving IPRs may be identified. The first relates to the concept of extension of statutory monopoly rights. Cases of this nature may include patent cartels, tying arrangements, etc. The second category of conduct (which sometimes overlaps with the first) involves pre-emptive behaviour by firms to deter the entry of potential competitors. See Organisation for Economic Co-operation and Development, *Competition Policy and Intellectual Property Rights* (Paris: 1989).
 5. The concept of market power relates to the ability of a firm (or a group of firms acting together) to maintain prices above competitive levels, without losing sales so rapidly that the price increase is unprofitable. Market power may also be manifested through an adverse impact on service quality, innovation or other relevant variables. See Director of Investigation and Research, *Merger Enforcement Guidelines* (March 1991), p. 3.
 6. See, e.g., J. Paul McGrath, "Patent Licensing: A Fresh Look at Antitrust Principles in a Changing Economic Environment," *Patent and Trademark Review*, vol. 82, no. 9, September 1984, pp. 355-65.

licensing has recently been extensively clarified through the issuance of new *Antitrust Guidelines For Intellectual Property Licensing*.⁷ These Guidelines contain many useful insights relating to matters such as "markets for innovation."⁸ They also clarify the policy framework for licensing arrangements in the U.S., which has evolved through distinct phases from one of fairly strict prohibition of many standard licensing practices in the early 1970s (the period of the so-called "Nine No-no's"), to one of comparative laissez-faire in the mid-to-late 1980s.⁹

In Canada, we have not had the same major shifts in competition enforcement policies relating to intellectual property as have been observed in the U.S.¹⁰ Indeed, competition policy in Canada has traditionally provided broad scope for efficient vertical licensing practices and related arrangements. Nonetheless, I have not ruled out setting out the competition policy treatment of intellectual property in Canada in an appropriate set of *Enforcement Guidelines* at some point in the future. Indeed, I would be interested in your views as to whether such *Guidelines* would be helpful.

-
7. See U.S. Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (April 6, 1995). For a useful exposition, see Richard J. Gilbert, *The 1995 Antitrust Guidelines for the Licensing of Intellectual Property: New Signposts for the Intersection of Intellectual Property and the Antitrust Laws*, (Address to the Spring Meeting of the American Bar Association Section of Antitrust Law, April 6, 1995).
 8. Markets for innovation are an analytical tool encompassing R & D efforts to develop particular new goods and services, and close substitutes for such efforts.
 9. Arguably, the policy swing was, to some extent, rhetorical rather than substantive. See Willard K. Tom, Special Assistant to the Assistant Attorney-General, U.S. Department of Justice, *Antitrust and Intellectual Property* (Address to a Conference on Copyright in Transition: Enforcement, Fair Dealing and Digital Developments, Ottawa, Ontario, October 13, 1994).
 10. R.D. Anderson, S.D. Khosla and M.F. Ronayne, "The Competition Policy Treatment of Intellectual Property Rights in Canada: Retrospect and Prospect," in R.S. Khemani and W.T. Stanbury, eds., *Canadian Competition Law and Policy at the Centenary* (Halifax: Institute for Research on Public Policy, 1991), chapter 23, pp. 497-538.

III. Overview of Relevant Statutory Provisions and Jurisprudence

Let me now highlight some key provisions of the *Act* that are potentially applicable to anticompetitive abuses of intellectual property rights.¹¹ The abuse of dominance provisions were incorporated into the legislation in 1986. Found in sections 78 and 79 of the *Competition Act*, they are a key element of the legislation and are potentially applicable to a wide range of practices relating to the exercise of intellectual property rights. These sections provide for a case-by-case evaluation of restrictive practices engaged in by dominant firms.

Section 78 of the *Act* provides a non-exhaustive list of possible anticompetitive acts that may be considered abusive and subject to challenge by the Director before the Competition Tribunal under section 79. The list includes acts such as requiring or inducing a supplier to sell primarily to certain customers, or to refrain from selling to a competitor, with the objective of preventing a competitor's entry into, or expansion in, a market. Recall, however, that the list of anticompetitive acts was deliberately left open-ended by Parliament. Accordingly, the abuse provisions are thus potentially applicable to a broad range of licensing practices such as tie-ins, field-of-use or exclusive purchasing restrictions which are not enumerated in section 78.

The abuse of dominance provisions contain a limited exception for the exercise of intellectual property rights. This exception, found in subsection 79(5) of the legislation, stipulates that acts that are engaged in "pursuant only to the exercise of any right or the enjoyment of any interest" derived under intellectual property statutes do not constitute anticompetitive acts for the purposes of the abuse provisions. This exception does *not* provide a blanket exemption for intellectual property holders from the application of the abuse provisions. The wording of the exception suggests that the provisions remain applicable to practices which are shown to constitute *abuses* of intellectual property rights (as

11. Such rights may include patents, trademarks, copyrights, registered industrial designs and integrated circuit topographies. A more detailed analysis of the relevant statutory provisions and jurisprudence is provided in Howard I. Wetston, "The Treatment of Intellectual Property Rights under Canadian Competition Law" in Gordon F. Henderson, ed., *Patent Law of Canada* (Carswell: Scarborough, 1994), Chapter 11.

opposed to the mere exercise of such rights).¹² The statute conveys on the Competition Tribunal broad discretion to issue remedial orders to address practices considered abusive.

The first decision by the Competition Tribunal under the abuse of dominance provisions, the *NutraSweet* matter, dealt with a number of issues relating to the role of intellectual property rights in the intense sweetener industry.¹³ A key allegation of the Director in this matter was that the NutraSweet Company ("NSC") had used its trademark to foreclose competition in the market for aspartame.

In its decision in the case, the Competition Tribunal accepted the Director's argument that an allowance offered to its customers by NutraSweet to encourage them to display the NutraSweet logo constituted an anticompetitive act, in view of the associated requirement for customers displaying the logo to use exclusively NutraSweet brand aspartame. In the Tribunal's view, this created an "all or nothing" choice for purchasers, which impeded entry by competitive suppliers. The remedial order issued by the Tribunal prohibited NutraSweet from continuing to offer discounts for the display of its trademark or logo and from engaging in other acts, such as offering its customers meet-or-release or "most-favoured customer" clauses, which were deemed to be anticompetitive.

It is noteworthy that in addressing the conduct associated with the respondent's trademark, the Tribunal did *not* find it necessary to discuss the exception for intellectual property rights in subsection 79(5) of the *Act*. It seems clear that the Tribunal determined that the exception does not limit the application of the section to IPR-related contractual and other practices when they are deemed to constitute anticompetitive acts.

Overall, the Tribunal's decision suggests that it viewed NutraSweet's marketing strategy as an attempt to artificially extend the duration of the company's Canadian patent protection. This was evident in the Tribunal's commentary on NutraSweet's argument that its various long term exclusivity clauses were necessary to prevent free riding and to enable the company to recoup

12. R.D. Anderson and S.D. Khosla, "Reflections on McDonald on Abuse of Dominant Position," *Canadian Competition Policy Record*, vol. 8, no.3, September 1987, pp. 51-60.

13. *Canada (Director of Investigation and Research) v. The NutraSweet Co.* (1990), 32 C.P.R. (3d) 1.

the costs incurred in obtaining regulatory approvals and developing its market. In this regard, the Tribunal stated that it "does not accept that NSC is entitled to any more protection against competition than it was able to obtain through patent grants that provided it with a considerable head start on potential competitors."¹⁴

A second relevant provision of the *Act* is section 32, a little-known civil provision that deals specifically with anticompetitive abuses of intellectual property rights. Originally enacted in 1910, section 32 is the current provision which permits the Federal Court of Canada, on application by the Attorney General, to issue orders providing for various remedial measures respecting abuse of patents, copyrights, trademarks or registered industrial designs.

The remedies available under section 32 include orders: (i) declaring void restrictive provisions in licensing agreements; (ii) restraining any persons from carrying out such objectionable provisions; (iii) directing the grant of licenses under a patent or copyright or, if this is considered insufficient, revoking a patent; (iv) requiring that a trademark be expunged; and (v) mandating such other measures as the Court considers necessary.

Two key points should be noted regarding the application of section 32. First, securing remedial measures under this section is contingent on satisfying the Federal Court that the practices in question have had "undue" anticompetitive effects. A somewhat similar test is incorporated in the criminal conspiracy provision of the *Act*.¹⁵ Of course, the legal interpretation of the test and its application may differ in the context of a civil proceeding under section 32.

Second, remedial measures taken under this section may not violate Canada's international obligations with respect to the protection of intellectual property. This is an important safeguard on the application of the section.

14. *Ibid.*, p. 52.

15. In the context of a criminal conspiracy case, "undueness" has been described by the Supreme Court of Canada as a serious or significant effect on competition as determined by an examination of two factors. The first is whether the parties have market power in the relevant market; the second requires a determination as to whether the parties' behaviour has been or will be likely to injure competition. *R. Nova Scotia Pharmaceutical Society et al.* (the "PANS" Decision), [1992] 2 S.C.R. 606 at 651-658.

Section 32 has not been applied in any recent cases. However, the potential application of this provision (then section 29 of the *Combines Investigation Act*) was illustrated in two earlier cases that were ultimately resolved through negotiated settlements. These cases centered on restrictive provisions in Union Carbide of Canada's licensing agreements for the use of the company's patented processes and machines for the extraction of polyethylene film from resin and treatment of this film for printing.¹⁶ The provisions involved included field-of-use restrictions, sliding scale royalties that allegedly discriminated against smaller producers, grant-back provisions relating to patents taken out by licensees, clauses that barred licensees from challenging the validity of the licensed patents, even after the termination of the licensing agreements, and provisions restricting the type of film that licensees were allowed to treat using the patented process. The *Union Carbide* cases were both resolved through negotiated settlements that addressed the main competition policy concerns, and thus did not provide any jurisprudence on substantive aspects of the provisions.¹⁷

Sections 85 to 90 of the *Act*, relating to the registration of specialization agreements, are also relevant. Specialization agreements are voluntary interfirm arrangements under which each firm agrees to discontinue producing a product. Agreements under which each firm promises to buy specified products from the other are also included. Under the applicable provisions, which were added to the legislation in 1986, such agreements may be registered with the Competition Tribunal (and thereby obtain limited protection from the application of the conspiracy and exclusive dealing provisions of the *Act*) where they meet the applicable statutory tests. In addition, the *Act* provides that as a condition for registration of an agreement, the Tribunal may make various orders including orders requiring the wider licensing of patents.

The purpose of the specialization agreement provisions is to facilitate industrial rationalization and help Canadian firms to compete effectively in international markets. Although the provisions have not been used to date, the Bureau is currently considering their possible use in connection with a particular agreement.

16. Director of Investigation and Research, *Annual Report for the Year Ended March 31, 1968*, p. 42, *Annual Report for the Year Ended March 31, 1970*, pp. 54-56, and *Annual Report for the Year Ended March 31, 1972*, pp. 29-30 .

17. *Id.*

Section 61 of the *Competition Act* is a criminal provision relating to the practice of price maintenance. This section refers specifically to the exclusive rights and privileges conferred by patents, trademarks, copyrights and registered industrial designs.

In addition, several other sections of the *Competition Act* that do not refer specifically to intellectual property rights are nevertheless applicable to abusive practices relating to such rights. For example, section 77 of the *Act* deals specifically with the practices of tied selling, exclusive dealing and territorial market restriction. It should be emphasized that these practices are not *per se* offenses under the legislation. Rather, they are reviewable matters that are dealt with on a case-by-case basis. The intent of the legislation is to provide remedies for dealing with these practices only where they are likely to result in a substantial lessening of competition and meet other statutory conditions.

A recent matter addressed under the tied selling provision that dealt with specific contractual abuses associated with intellectual property rights was the Digital Equipment of Canada Limited ("DEC") matter. This involved an "integrated service policy" under which DEC tied the sale of updates for its copyrighted operating system software to hardware servicing on its equipment. The Director believed that DEC's policies amounted to an anticompetitive extension of market power derived from IP rights that had impeded the entry and expansion of third party maintainers that compete with it in providing hardware servicing. As a result, end-users of DEC equipment were prevented from enjoying the lower prices and enhanced services offered by third party maintainers. The Director's concerns were ultimately resolved through undertakings received from Digital in October 1992, to discontinue its integrated service policy.¹⁸

One issue that has not been resolved in the Canadian jurisprudence relates to whether, and in what circumstances, a refusal to license intellectual property rights could constitute an abuse of market power for the purposes of competition law. As you know, this issue was dealt with by the European Court of Justice in

18. Director of Investigation and Research, *Annual Report for the Year ended March 31, 1993*, p. 14.

the recent *Magill* case.¹⁹ In its decision, the Court held that the exercise of an exclusive intellectual property right by the proprietors may, in exceptional circumstances, go beyond what is necessary to fulfill the essential function of copyright protection, and could, therefore, constitute an abuse of dominant position subject to review under Article 86 of the Treaty of Rome. It remains to be established whether the Canadian courts would take this view in the context of Canadian legislation and jurisprudence.

IV. Comparative and International Policy Developments

On a more forward looking note, let me now share with you some thoughts on policy issues relating to competition policy, intellectual property and the framework for international trade and investment in the future. The recently concluded North American Free Trade Agreement ("NAFTA") contains a number of provisions that have implications for the competition policy-intellectual property interface. To begin with, Chapter Fifteen of the NAFTA agreement provides that each party to the agreement shall adopt and apply measures to deal with anticompetitive business practices. The chapter also provides for the establishment of a Working Group on Trade and Competition, comprising representatives of each party, to study issues concerning the relationship between competition laws and policies and their implications in the free trade area.

The Bureau of Competition Policy has the lead role in shaping Canada's input to the Working Group, in cooperation with the Canadian Department of Foreign Affairs and International Trade as well as the Department of Finance. Currently, the Group is examining a range of issues relating to the application of competition law, including issues relating to national treatment and transparency in competition law enforcement, comparative aspects of trade and competition policy and export cartels.

Chapter Seventeen of the NAFTA Agreement contains precedent setting provisions relating to Intellectual Property protection. The chapter stipulates that Parties to the Agreement may adopt or maintain appropriate measures dealing with

19. See *RTE, BBC, ITP v. Commission of the European Communities* [the *Magill* TV Case], affirmed on appeal by the European Court of Justice (April 6, 1995). The case dealt with a refusal by three television stations to licence their copyrighted television schedules to allow a third party to create a new comprehensive weekly guide to television programs for which there was potential consumer demand.

anticompetitive abuses of intellectual property rights.²⁰ The chapter further indicates that, in contemplating such measures, competition authorities must have regard to the maintenance of an environment conducive to innovation and productivity improvement.

In view of these and related developments, it is likely that the interface between competition policy, intellectual property and international economic integration in the North American continent will receive increasing attention in the future. A particular matter that will undoubtedly merit consideration particularly for competition law officials concerns the implications of international market segmentation through the use of intellectual property rights. A good argument can be made that patent and other IP rights that are national in scope may be efficient and practical in many circumstances.²¹ Nonetheless, at some point in the future, it may be desirable to give consideration to adopting a policy of "exhaustion" of intellectual property rights across the North American Free Trade Area, to foster competition and the free movement of goods and services. This would be comparable to the policy applicable in the European Community.²²

V. Concluding Remarks

In today's economy, marketplace framework policies such as those dealing with competition law and intellectual property rights have a crucial role to play in fostering efficient market structures and behaviour. This role has been accentuated by globalization, rapid technological change and decreased reliance on industry-specific regulation and public ownership.

20. See NAFTA, Article 1704.

21. R.D. Anderson, P.J. Hughes, S.D. Khosla and M.F. Ronayne, *Intellectual Property Rights and International Market Segmentation: Implications of the Exhaustion Principle* (Bureau of Competition Policy, Working paper, October 1990).

22. Under the rule applicable in the European Community, legitimately made patented articles that are placed on the market in any member state may move freely throughout the Community.

In Canada, competition law has traditionally provided a market-oriented framework for the exercise of intellectual property rights that guards against anticompetitive practices while providing broad scope for efficient business arrangements. While this framework will continue to evolve and be clarified, the basic policy direction is clear -- competition law and intellectual property rights will work together to foster a dynamic and competitive marketplace in Canada.²³

Speech/Addy/6-E

23. Recently, the Bureau of Competition Policy has commissioned a series of economic and related studies on the subject of *Competition Policy, Intellectual Property Rights and International Economic Integration*. The studies are intended to provide an in-depth examination of various issues that have been addressed in my remarks today, as well as analyzing more specific enforcement policy issues and commenting broadly on the roles of competition and intellectual property in fostering a dynamic and competitive economy. This work is being carried out in cooperation with the Canadian Intellectual Property Office and the Policy Sector of Industry Canada.